

CONSTRUCTING MODEL PENSION PLAN FOR NEW YORK

Commission Studying System Which Pays Out Five Million Dollars Annually to Former City Employees

THE city of New York, through its Commission on Pensions, is now making a thorough study of the pension systems in its various departments with a view to remedying the defects and inequalities in the present system and for the purpose of constructing a nearly as might be, a model pension plan for municipal employees.

The commission was organized in the summer of 1913, with George W. Perkins as chairman and City Chamberlain Henry Bruere as vice-chairman and secretary. Owing to the death of Mayor Gaynor and the then approaching change of administration little was done until after the November election.

In December, 1913, and throughout the winter the commission granted hearings to various groups of city employees in order to obtain first-hand information as to the effect of the present systems on the service. It was soon reached, however, that such hearings lacked practical value, since there was little authentic information on hand as a basis for discussion. The commission therefore postponed hearings pending



Editing and filing census cards of city employees. Each card contains a complete history of the city employee since his entrance in the service.

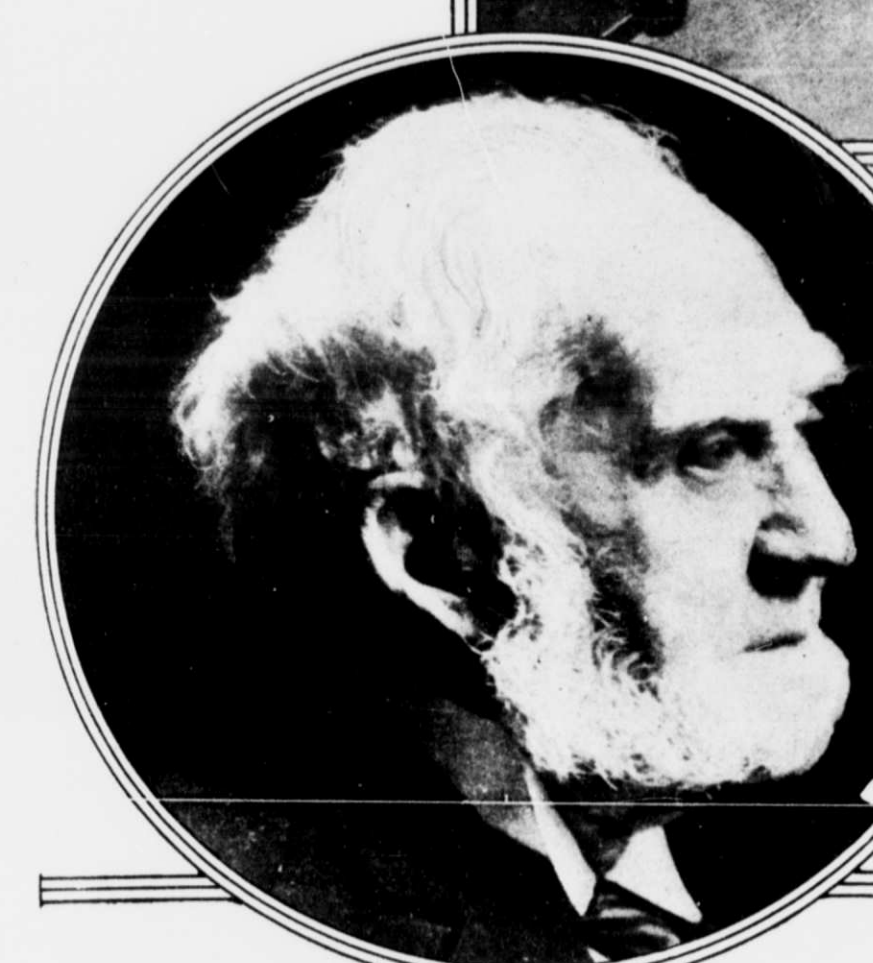
Ferretting Out Defects and Inequalities in the Various City Departments a Gigantic Task

department contribute 1 per cent. of their salaries to the fund. Health Department employees receive one-half their final salaries after twenty years service and one-fourth to one-half their final salaries in case of disability before the expiration of this period. To widows, children or the widowed mother of a member dying as a result of the performance of duty the uniform amount of \$300 per annum is provided.

As to its financial condition the reserve fund in this department of about \$400,000 is being added to annually by the excess of receipts over disbursements. This reserve, however, is inadequate and insolvency is not far off. There is no provision in law covering deficiencies.

The Pension Fund of the College of the City of New York was established in 1902 for the benefit of the teaching staff of the college and receives no contributions from its members.

The latter receive one-half their final salaries after twenty or thirty years teaching experience, ten or twenty of which must be in the college. An additional \$1,000 is allowed to the president and \$500 to the vice-president. Optional increases to a maximum of \$2,000 are also possible in the case of professors. No pension is allowed to dependents.



The oldest living pensioner in the city of New York, Edward Abeel, former Dockmaster. Aged 90. In the Department of Docks and Ferries thirty-one years as Dockmaster. Retired July 1, 1914. Amount of pension, \$1,050. Wife is 85 years old, and has four children—Mary, 54; Alice, 48; Florence, 44, and Clara, 38.

the securing of complete data as to the operation of the present pension systems.

Robert von Reutlinger, formerly pension expert for the Bureau of Municipal Research, and George B. Buck, consulting actuary, both of whom conducted the police pension investigation for the Aldermanic Commission in 1913, were appointed by Mayor Mitchell to take charge of the staff of special investigators engaged by the commission.

The first step undertaken by the commission, according to Mr. von Reutlinger, was the obtaining of an accurate census of all the employees in the city departments, as well as thousands of individuals who are no longer in the city service. This prodigious task necessitated the writing of 130,000 personal records—a census of active employees, those who have left the city service in recent years, of present pensioners and of the records of past pensioners. The work was begun about six months ago. It has just now been completed. It has required during that time the service of a varying number of clerks, the staff numbering over eighty for part of the period.

"Such a work has rarely been undertaken and never on anything approaching such a vast scale," says Mr. von Reutlinger. "Perhaps the nearest approach to this work was a census of 14,000 employees of the Government of New Zealand, which was an undertaking about one-tenth as large as ours. You can imagine some of the difficulties which confronted our clerks when I tell you that even the correct date of birth in a most elementary consideration (in an actuarial calculation) was not obtainable from any of the departmental records and required a search of service records not classified in a chronological way. From first to last it was necessary to dig into records which were never prepared nor kept for purposes of statistical reference. Multiplying this difficulty in a single case by 130,000 and perhaps you will realize that we have had no small task."

In consultation with departmental representatives, individual history cards were perfected for taking the census of the active employees of the city, of those whose services had terminated during the preceding six and one-half years of living pensioners and of those whose pensions had terminated.

Numerous rules and regulations of the city service not sufficiently flexible, as well as uncertainty, until recent months as to the extent to which the city would authorize continuance of an efficient staff for the somewhat unusual and special work of the commission. But a force of eighty-four employees was gradually assembled to handle the work during the rush period, of which a competent body of sixty-two (the pick of the larger force) now remains.

During the latter half of 1914 the census cards gathered by the departments have been received in the of

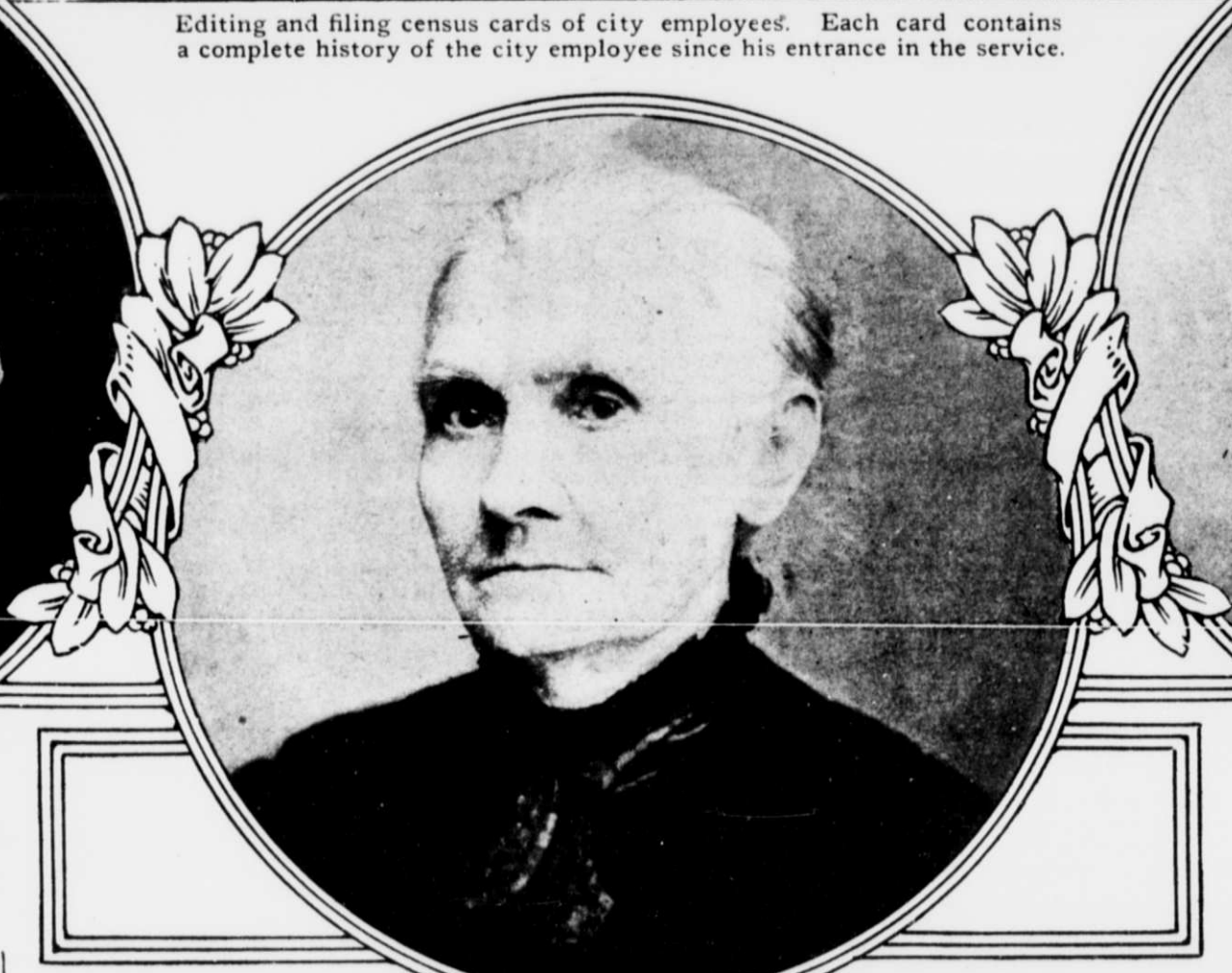
fice of the commission. These have been checked against available records, and thousands of missing cards have been supplied, generally by investigators detailed from the commission's office. The cards have been edited on a uniform basis and the service of individuals of various departments and pensioners has been brought together in a complete record.

Before one can settle on an adequate pension system which will operate on a sound financial basis the following questions must be answered in order to ascertain the ultimate cost of such a pension scheme:

1. How old is the average employee before he ceases to be a useful public servant?
2. Should a pension be paid him as a reward for long service or because he is no longer useful, or for both reasons?
- (a) If for long service, how long?
- (b) If because of old age inefficiency, how can the line between efficiency and inefficiency be accurately drawn?
3. Should the pension be paid to every disabled employee or only to those who have seen long service?
4. Should the pension be paid if a person is able to earn a living wage?
5. Should the pension be paid to dependents of employees, or of pensioners, or of both?
6. Should the city pay the whole cost of the pension or should the employee share the cost, and if he is to share, in what proportion?
7. If higher wages are paid for hazardous occupations should higher pensions also be paid?

In order to be able to answer the foregoing questions it was necessary for the commission to know among other things the nature of the work the employee has done for the city, the time he has served, his age and marital condition, the ages of those dependent upon him, his earnings past and present, and if he is now receiving or at any time has received a pension. With these various factors at hand the experts in charge of the commission's work are in a position to calculate mortality experience, withdrawal experience, disability experience and dependent experience, all of which must be ascertained if they would decide as to how much the present pension plan is going to cost somebody in the future and how much any proposed pension plan will cost. Their work is similar to that of the insurance company which never writes a risk until it has carefully and laboriously determined what that particular class of risk is going to cost.

The Actuarial Society of America has become interested in the working out of the pension problem in the city of New York and has appointed a committee of three eminent actuaries, namely, William A. Hutcheson of the Mutual Life Insurance Company, as chairman; Robert Henderson of the Equitable Life Assurance Society and Henry Mohr of the Home Life Assurance Company, to advise and cooperate with the Pension Commission. It is the purpose of this



Oldest widow pensioner, Mrs. Jane Pope. Aged 98 years. Widow of David Pope, a patrolman. Has nine living children and twenty-three grandchildren. Receives a pension of \$300.

committee, representing the Actuarial Society of America, to analyze the statistical conclusions of the Pension Commission's experts and to pass final judgment on the proposed actuarial scheme for a new pension system. Mr. Hutcheson and Mr. Mohr have already made a preliminary informal survey of the work at the offices of the commission, but have not as yet entered into the details of the actuarial plans.

The work of actuarial computation by departments has now been started and it is expected that the liability of the city under existing pension laws will be known by the autumn of 1915. The results will be announced and public hearings will be held upon the basis of known facts and conditions. Upon the conclusion of these hearings the commission will be in a position to formulate a pension system both scientifically and practically sound.

The commission's work in formulating a purposeful and deficit proof pension system to take the place of the present pension chaos naturally divides itself into two parts:

First, The determination of present and future liabilities under existing pension provisions.

Second, The determination of the principles which should underlie a purposeful and equitable pension system. From now on the actuarial phase of the work becomes the important one. The actuarial force must deal in mathematics on a large and intricate scale, so large that were it not for various mechanical devices three hundred clerks could scarcely complete the work during the year. The installation of these ingenious tabulating machines will enable the commission to complete the undertaking in approximately eight months and with the aid of only thirty clerks. For example, by means of a

numerical code the information on census cards is punched at the rate of 1,000 cards a day by the six punching machines in operation. Then there is a machine that automatically sorts and classifies them at the rate of 250 cards a minute. Other machines tabulate the results at the rate of 150 a minute, adding the data in five different columns.

As soon as the results are tabulated by the actuarial force the data from each department will be carefully studied, and it is this study which will furnish a scientific basis for the pension system in the city departments.

In his report submitted to Mr. Bruere, secretary of the commission, the pension expert in charge, Mr. von Reutlinger, says: "I mentioned some of the questions that must be answered before the cost of a just and financially sound pension scheme can be instituted in this city. Of course this city is not the only employer trying to answer them fairly. Large corporations and municipalities the world over have faced them; and we are seeking to find how they have answered them, how their solution is working out and how it is being received by those concerned. The series of public hearings which we contemplate holding will afford an opportunity to the employees, pensioners and the public to advance and support their views on the pension subject in the light of known facts and conditions. Upon the conclusion of these hearings the commission will endeavor to formulate a model pension system for this municipality, practically sound in its development of varying pension proposals and financially sound in its timely supervision and distribution of the cost of operation."

The task before the actuarial department of the commission is primarily to determine the city's liabilities under existing provisions upon the basis of data collected by means of the census of city employees.

Each of the eight pension funds now in operation are being valued separately. In addition to the customary presentation of present values of assets and liabilities, computations are being made showing the amounts needed annually to discharge the city's obligations to its pensioners.

The mortality, withdrawal and other statistical tables are being constructed for the purpose of the appraisal of liabilities under existing pension plans and will be used as a basis for calculating the cost of any pension provisions the commission may propose.

A report on the pension system of the city of New York, prepared by the Commissioner of Accounts, was submitted on May 27, 1913, to the late Mayor Gaynor. It recommended first of all the appointment of a commission to make a scientific study of the subject of pensions as applied to the municipality of the city of New York.

During the last year the office of the Commissioner of Accounts, at the direction of Mayor Mitchell, has actively worked in conjunction with the Pension Commission on this problem. It has assigned a force of expert examiners and accountants to assist the commission in the gathering of the census and to help interpret the statistical data relating to pension cost.

An audit of the relief and pension fund for the benefit of clerical and uniformed forces of the Department of Street Cleaning and a general examination of the activities of the fund were recently transmitted to the Mayor by the Commissioner of Accounts.

As a result of this investigation it was recommended that future appointments in the Department of Street Cleaning be given due consideration as to age and physical condition in order that the operation and usefulness of the relief and pension fund may not be further unnecessarily encumbered, and also that all unclaimed pension moneys be deposited in a separate bank account which shall be drawn upon for the liquidation of such items.

The following review of the main features of the eight pension funds in the city of New York indicates the variety of contingencies which had to be considered in planning the actuarial work and in digesting the pension plans under which the present pension plans operate:

The Police Pension Fund was established in 1857 and was the first of the municipal pension funds. Its membership consists of the uniformed force and is compulsory. All the members of the force contribute 2 per cent. of

their salaries to this fund and in the case of this department alone the city is legally compelled to contribute in the case of any deficit.

The benefits to members because of service or disability are based upon the final salary, mostly one-half. To widows, children and dependent parents of active members and pensioners an amount not exceeding \$600 is allowed in the discretion of the Commissioners. The records show that there is no reserve in this fund and that the regular income from miscellaneous sources has been insufficient to cover annual demands since 1904. As a result it has been necessary to cover the deficiencies by budgetary appropriations.

The Fire Department Relief Fund was next established in 1871. Its membership also consists of the uniformed force. It is the only department wherein the employees are not required to contribute small percentages of their salaries toward the fund.

The benefits to the members of the Fire Department Pension Fund because of service or disability are based upon final salary and usually amount to about one-half of such salary. The law allows pensions of more than half salary in the discretion of the Commissioner, and to widows, children and dependent parents of active members and pensioners one-half of the final salary of the deceased up to a maximum of \$1,000 is provided in the case of death resulting from active performance of duty. In all other cases an amount not exceeding \$300 is allowed in the discretion of the Commissioner.

The reserve in the Fire Department Pension Fund is not applicable to deficiencies. The regular income from miscellaneous sources has been insufficient to cover annual demands since 1912. Such deficiencies have been met by the sale of special revenue bonds.

The School Teachers Retirement Fund, which was established in 1894, is subscribed to by all regular teachers in the city. A contribution of 1 per cent. of the salary of each teacher is made compulsory.

After thirty years of service upon application and after twenty years of service in case of disability school teachers are entitled to retirement. Fifteen years of such service, however, must have been rendered in the schools of New York city. The retirement fund of this department provides a pension of one-half the final salary, with a maximum of \$2,000 and a minimum of \$600 and one-sixtieth of the final salary for each year of service in case of disability.

The reserve of \$800,000 in this fund, as in the case of the Fire Department, is not applicable to deficiencies. And too the regular income from outside sources has been insufficient to meet the expense of the fund since it was started. There is no provision in law as to deficiencies in the teachers' fund, the same being covered by the city advancing each succeeding year's income.

The Health Department Pension Fund was started in 1894 and its membership is voluntary. Employees of this

department contribute 1 per cent. of their salaries to the fund. The annual income of this fund is limited to 1 per cent. of the city's share of excise taxes. It has required but a small part of the excise taxes allowed to cover the annual claims.

The Street Cleaning Department pension fund was established in 1911 and is subscribed to by the entire force. The street cleaners are the most heavily taxed of any of the city employees. They are compelled to contribute 3 per cent. of their salaries to the pension fund.

As to the benefits which they receive: To members disabled after ten years a pension of \$300 per annum is allowed. Upon application after twenty years service, those who are sixty years of age or over are allowed pensions of one-half their final salaries. To widows, children or the dependent mother of a member dying in the service a pension of \$200 per annum is provided.

Various sources provide the income of this fund. The reserve amounts to about \$700,000. In 1913 the contributions of employees alone were almost enough to pay the annual pension claims. The total income from all sources was three times greater than the disbursements. The fund, however, cannot be considered solvent. The extent of the insolvency will be known after a valuation of the fund is made.

The Supreme Court, first department, has its pension fund, established in 1911, for the benefit of the clerical force of the court and county clerk, who contribute voluntarily 1 per cent. of their salaries.

The members receive one-half the average of their last two years' salaries after thirty years of service upon application, and after twenty-five years service in case of disability. A minimum of twelve and one-half years in the service of the Supreme Court is necessary.

The funds needed for pensions in this department in excess of the employees' contributions and balances of salary appropriations are provided for by annual appropriations.

The "Grady law" pensions, which were limited to the Finance Department in 1911, but have since been extended to include all employees of the city of New York and its counties and of the courts which were not covered by specific funds, were established in 1905. None of the members contributes to this fund.

In case of disability a maximum of one-half the average salary for the last three years is allowed and the same after thirty years of service (twenty years in case of veterans of the civil war). No pensions are provided for dependents of members.

The annual demands of these pensions are covered by excise taxes.

No city abroad has been discovered as far which has as liberal provisions for retirement as the city of New York. In foreign cities voluntary retirement is mostly permitted at the age of 60 or 65. Where contributions are made by employees they usually vary between two and one-half and five per cent.

CITY CHAMBERLAIN HENRY BRUERE SAYS:

"The commission, which was organized in 1913, is now making a thorough scientific study of the pension systems in operation in the departments of this city in order to formulate an equitable and financially sound pension system for all municipal employees."

"There is nothing mysterious about our work, and we have no sinister designs either on the present pensioners, on the city employees, or on the taxpaying public. The appointment of this commission was resolved upon because it was thought to be high time that pensioners, employees and taxpayers should come to understand each other and to realize and face their mutual obligations to one another. Few people know that at the close of the year 1913 there were 7,839 New York city pensioners receiving a total yearly grant of \$4,935,749.56, and that the number as well as the amount will continue to grow for many years to come. The necessary provisions, however, have not been made for meeting such growth in the future. A pension plan is almost worthless which does not assure the continuity of the pension. Pensioners, employees and the public will no doubt agree that provision should be made for security in pensions."